

**STATEMENT OF  
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**BEFORE THE HOUSE BUDGET COMMITTEE  
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**PERSPECTIVES ON WASTE, FRAUD, AND ABUSE IN GOVERNMENT**

Chairman Kasich, Ranking Member Spratt, and Members of the Budget Committee, I appreciate the opportunity to appear before you today to give you my perspectives on waste, fraud, and abuse in the Federal Government.

My perspectives are based on the 6 1/2 years I have spent as Inspector General (IG) at the Department of Housing and Urban Development (HUD). IGs, as you well know, are required by statute to focus on promoting economy and efficiency, and preventing and detecting waste, fraud, and abuse. I think it's fair to say that, as a result of their very focused mission, the IGs have developed considerable expertise in these areas. That, of course, does not mean that the IG view is the only view to consider in evaluating Federal programs.

It's also important to keep in mind that I am the IG at HUD. I work at HUD, and so do the other people in the HUD OIG, because we believe in HUD's core mission. We are committed to fighting waste, fraud, and abuse in HUD programs and operations because every dollar lost to such activities is a dollar that people who need HUD's assistance aren't getting. Despite a robust economy, HUD serves only about one fifth of those households that could qualify for housing assistance. It's also easy to get motivated to fight waste, fraud, and abuse when the results of such activities are graphically manifested in the form of deplorable living conditions.

I do not see waste, fraud, and abuse as a political issue, but I think that others might. There is, for instance, concern that acknowledging waste, fraud, and abuse will lead to the demise of needed programs. Accordingly, there is a tendency to declare that the battle against waste, fraud, and abuse has been won. There is also the fact that fixing the problems that lead to waste, fraud, and abuse tends to require either sustained concentration on boring, bureaucratic processes, and/or changes in programs that have established constituencies. As a result of these factors, it seems to me that the discussion about, understanding of, and perhaps concern about waste, fraud, and abuse in the Federal Government are quite shallow.

Take the case of HUD. When Secretary Cuomo took office in January 1997, he said that HUD had become the poster child for mismanagement, and he vowed to turn the Department around. And indeed, over the past couple of years, Secretary Cuomo has reported a reinvigorated, more efficient, and more effective HUD. These reports have largely been based on HUD's getting a "clean" audit opinion on its financial statements; the Secretary's downsizing of the HUD bureaucracy; the proclaimed success of Secretary Cuomo's HUD 2020 Management Reform; Secretary Cuomo's launching of new programs; positive assessments by consultants paid by HUD; and increased appropriations for HUD. Permit me to look at each of these measures of success from an IG's perspective.

## **IS HUD'S "CLEAN" AUDIT OPINION A SUCCESS STORY?**

In March 1999, the OIG issued its audit of HUD's 1998 financial statements. For the first time ever, HUD received an unqualified opinion, meaning that HUD had produced complete and reliable financial statements. The unqualified opinion got good press, and Secretary Cuomo threw a celebration party for HUD employees. The Deputy Director of OMB and "Mr. Clean" attended.

There are two big problems with this apparent success story.

First, HUD paid a contractor more than \$2 million to get its 1998 financial statements in the shape required for an unqualified opinion. This is problematic for a variety of reasons. Obviously, it's a lot of money to spend to get an unqualified opinion for a governmental entity; that amount of money could have provided housing assistance to about 350 needy households. Further, it shouldn't have been necessary--HUD's financial management systems should be able to produce the financial statements without further, extensive work. But, if the financial management systems aren't up to the task, and they aren't, then we cannot assume that HUD will continue to get unqualified opinions--unless they pay for the additional contractor work each year. This year, a similar contract is in place to put the financial records in order.

Second, the clean or unqualified opinion was equivalent to the OIG's saying that HUD had a balanced checkbook. The more important question is whether the money was spent for the right purposes. This question was addressed in the Report on Internal Controls, which accompanied the audit opinion and listed eight material weaknesses. The material weaknesses may sound like "green eye shades" types of concerns, but they actually constitute serious deficiencies in HUD's ability to ensure that funds are spent for proper purposes. The eight material weaknesses are:

- HUD needs to do more to ensure that subsidies are based on correct tenant income.
- Improvements are needed in multifamily project monitoring.
- HUD needs to complete improvements to its financial management systems.
- HUD must improve the management of its resources.
- Monitoring of insured mortgages needs to place more emphasis on early warning and loss prevention.
- The Federal Housing Administration (FHA) needs to improve its accounting and financial management systems.
- HUD must address problems that cause resource shortages affecting FHA programs.
- FHA must improve federal basis and budgetary accounting.

Consider the import of the first material weakness, which is gently labeled "HUD needs to do

more to ensure that subsidies are based on correct tenant income." This material weakness has its foundation in an estimate that in 1998, under its public housing and Section 8 programs, HUD made housing subsidy overpayments totaling \$857 million (as compared to total spending under these programs of \$15.5 billion). HUD made the overpayments because some recipients underreported or didn't report their true incomes; and neither HUD nor the administering housing authorities had control systems adequate to identify the underreporting or failure to report. This matters a lot, because, again, every dollar of overpayment is a dollar that is not being made available for truly needy families who are on long waiting lists for HUD assistance.

HUD acknowledges this weakness and intends to correct it through a process that starts with matching reported tenant incomes with IRS and Social Security income data. HUD's first match of data (for calendar year 1998) identified 280,000 instances of income underreporting that exceeded established thresholds (\$4,000 for project-based Section 8; \$8,000 for public housing and tenant-based Section 8). This week, HUD started mailing letters to tenants asking them to explain the discrepancies to the PHAs or owners. HUD will also be notifying the PHAs or owners that discrepancies exist and providing them with instructions to remedy the discrepancies and report back to HUD. Since this methodology has not yet been tested, and there is question about the accuracy of the tenant income data in HUD systems, we are concerned that a large number of tenants may receive erroneous income discrepancy letters (for calendar year 1998 income), which will have negative long-term implications for the computer matching program.

Or consider the second material weakness, "Improvements are needed in multifamily project monitoring." This material weakness concerns HUD's oversight of about 30,000 privately and non-profit owned multifamily projects. The Report on Internal Controls says that:

"Overall, we found that monitoring of troubled and potentially troubled assisted projects was inadequate. We noted audited financial statements that were not submitted and reviewed, and physical inspections and management or occupancy reviews that were not performed by the field offices. In addition, field offices were not adequately following up to resolve identified deficiencies."

This material weakness was first reported in the financial audit for Fiscal Year 1991. HUD's compliance and monitoring approaches for dealing with problem multifamily projects are still evolving.

You might be asking, "So what?" Results from the OIG's Operation Safe Home multifamily equity skimming initiative are instructive. Equity skimming is the misuse, by an owner or managing agent, of any part of the rents, assets, proceeds, income or other funds derived from an FHA insured multifamily project, in violation of the Regulatory Agreement between the owner and HUD. Mortgage defaults and deteriorated living conditions tend to go hand in hand with equity skimming. So, in 1994, the OIG made it a priority to identify equity skimming and get diverted funds repaid or the projects repaired. Between 1994 and September 30, 1999, we examined 147 multifamily projects and then, in conjunction with HUD and the Department of Justice, successfully pursued repayments of more than \$90 million.

The OIG is maintaining its focus on equity skimming:

- Last month, for example, based on a lengthy investigation by the OIG and the FBI, the U.S.

Attorney for the Middle District of Florida announced guilty pleas by 10 individuals and one business. They had conspired in an equity skimming scheme which allowed the owners of 13 HUD-insured multifamily developments to illegally divert more than \$987,000 between 1991 and April 1995.

- Last week, based on another lengthy investigation by the OIG and the FBI, the U.S. Attorney for the Northern District of California announced the indictment of a prominent figure in the multifamily industry on 19 charges of stealing over \$1.8 million from multifamily projects, defrauding the United States and HUD, and paying illegal kickbacks. The grand jury, which expressed outrage that HUD hadn't detected and stopped these practices, gave a standing ovation to the auditors and agents who had conducted the investigation.

HUD officials have acknowledged that corrective action is needed in these eight areas of material weakness. The unqualified opinion does not justify overlooking the fact that these long-standing, serious problems continue to exist.

### **SHOULD THE DOWNSIZING OF HUD BE CONSIDERED A SUCCESS STORY?**

Efforts to reduce the Federal bureaucracy seem to be universally applauded, and Secretary Cuomo has in fact claimed HUD's downsizing as a major accomplishment.

I am somewhat perplexed by this tendency to see downsizing, in and of itself, as a good thing, without regard to the bigger picture of overall expenditures and impact on program delivery. At HUD, there is evidence that the downsizing that started in 1995 has increased costs as well as program abuse.

In June 1995, as part of his "Response to GOP Proposal to Dismantle HUD," Secretary Cisneros issued a Reinvention Blueprint that called for a radical restructuring of HUD programs and the "transformation of HUD from a lumbering bureaucracy to a streamlined partner with State and local governments. Significant downsizing is anticipated, reducing HUD's current workforce of 12,000 today to fewer than 7,500 employees." There was no analytic basis for the 7,500 target. Further, the radical restructuring of HUD programs was subsequently shelved, but HUD's commitment to downsizing continued through rounds of untargeted buyouts.

By the time Secretary Cuomo took office in January 1997, HUD's staffing had been reduced to about 10,500. Secretary Cuomo announced his commitment to achieving the target staffing level of 7,500; and, a little more than a year later, HUD staffing was at 9,100, the reduction once again having been accomplished through use of untargeted buyouts. After massive staff reshuffling among programs and locations, however, it was the Single Family Mortgage Insurance Program that took the brunt of the staffing reductions; its staff was cut in half.

The Secretary's HUD 2020 Reform Plan envisioned contracting out as a principal means of compensating for the Single Family staff reductions. Notably, HUD's Real Estate Owned (REO) single family properties (acquired as a result of HUD's paying insurance claims) would be managed, marketed, and sold by a few full-service contractors, as opposed to those functions being handled by a combination of HUD staff and about 350 real estate asset management contractors. The new management and marketing contractors were to be in operation by October 1998.

HUD never analyzed the costs and benefits of this approach. When OIG auditors questioned why program officials hadn't prepared the cost comparison required by OMB Circular A-76, program officials answered that they weren't required to, because the new contracting wouldn't affect the jobs of more than 10 employees. That's because the aforementioned staffing reductions had already taken place.

So what? Well, the major staffing reductions took place in the fall of 1997. Because large scale procurement isn't one of HUD's strongest suits, the new management and marketing contractors didn't start operation until April 1999 (rather than October 1998, as planned). In the intervening 15 months, OIG auditors found that "inventory increased, sales to homeowners declined, age and condition of FHA properties deteriorated, revenue was lost, and holding costs increased...FHA management issued emergency contracts, and placed temporary, inexperienced, and/or untrained HUD staff in property disposition jobs. The effort did not overcome the problems."

HUD awarded 16 management and marketing contracts having an estimated 5-year cost of \$927 million. Seven of these contracts (with an estimated 5-year cost of \$367 million) were awarded to a single contractor, Intown Management Group. OIG auditors looked for but couldn't find any evidence that HUD officials had assessed Intown Management Group's financial capability to handle this huge workload (estimated to be 40% of HUD's total REO inventory). Forty five days into the contract period, Intown voluntarily withdrew from one of its seven contracts. Six months into the contract period, HUD terminated Intown's six other contracts for non-performance. At that time, Intown had sold only about 2.8 percent of its assigned inventory.

By the end of January 2000, HUD's REO inventory totaled 47,711 properties, 42% of which had been in the inventory 6 months or more, and 17% of which had been in the inventory 12 months or more. Ten months earlier, when the management and marketing contractors started work, the inventory had totaled 43,560 properties, 30% of which had been in the inventory 6 months or more, and 10% of which had been in the inventory 12 months or more. These statistics demonstrate the difficulty of disposing of properties that have been in the inventory for long periods and the tendency of contractors to focus their efforts on disposing of recently acquired properties.

This matters a lot. Vacant, boarded up HUD-owned homes have a negative effect on neighborhoods, and the negative effect magnifies the longer the properties remain in HUD's inventory. The good news part of this sad saga: the neighbors throughout the country have made their anger about the HUD REO situation known to the media and the Congress.

The downsizing of the Single Family staff has also afforded increased opportunities for fraud. For example:

- OIG and FBI investigation established that Allstate Mortgage Insurance, a HUD-approved lender in the Direct Endorsement Program, originated more than \$97 million in 427 fraudulent loans during the period June 1996 through July 1997. OIG auditors followed up to find out why Single Family staff had not detected a fraud of this scale. The auditors concluded that staffing reductions had eroded the Single Family staff's ability to adequately oversee mortgagees' loan origination practices, a situation that was exacerbated by confusion about a new HUD 2020 policy designed to compensate for the staff reductions.

- In January 2000, as a result of another OIG and FBI investigation, a HUD Housing Specialist in the Los Angeles Office pled guilty to receiving \$80,000 in kickbacks in exchange for selling about \$2.1 million in HUD REO properties to a real estate company owner for only about \$700,000. OIG auditors again followed up to find out why HUD staff had not detected this fraud, which continued over a 7-month period. They found that the Housing Specialist's work had been subject to no supervisory review. The responsible supervisor said the office's REO workload was too large, and the pressures to dispose of it too great, to allow for any supervisory review.

I trust that this recounting explains why I do not believe that downsizing, in and of itself, should be counted as success.

### **IS SECRETARY CUOMO'S 2020 MANAGEMENT REFORM A SUCCESS STORY?**

When Secretary Cuomo announced his HUD 2020 Management Reform Plan in June of 1997, he said: "For HUD to fulfill its mission, it must have credibility -- with Congress, with local government[, with the] customer. They must all believe that HUD has the competence and capacity to perform its functions. It's time HUD put its own house in order." HUD 2020 was Secretary Cuomo's plan to put HUD's house in order.

Since the fall of 1998, Secretary Cuomo has cited increased HUD budgets and positive statements by consultants paid by HUD as evidence that HUD's credibility has been restored. Secretary Cuomo in turn presents this as evidence that the HUD 2020 Management Reform has worked.

Again, the OIG's approach is different. We have tracked the progress of HUD 2020 in as objective a manner as possible, against the goals and time frames Secretary Cuomo established for it. And from this perspective, at this writing, HUD 2020 cannot be called a success. More than 2 1/2 years after its announcement, HUD 2020 is still very much a work in progress.

HUD 2020 was supposed to be fully operational by October 1998. By that time, staffing reductions and organizational changes had been made, but the business process improvements called for by HUD 2020 had not taken place. At this writing, 16 months after the October 1998 deadline, we are still waiting to see the business process improvements. For example:

#### **Single Family Property Disposition**

Earlier in this statement, I talked about the management and marketing contracts, the HUD 2020 device intended to increase the efficiency of HUD's Single Family property disposition function and compensate for severe reductions in Single Family staff. Again, between April 1999, when the management and marketing contractors started work, and January 31, 2000, HUD's REO inventory has increased from 43,560 to 47,711 properties; the percentage of properties in the inventory 6 months or more has increased from 30 to 41; and the percentage of properties in the inventory more than 12 months has increased from 10 to 17.

While there is evidence of a decline in HUD's inventory from a high of 51,537 properties at September 30, 1999, the size of the older inventory has grown from month to month.

### **Scoring the Financial and Physical Health of HUD's Public and Multifamily Portfolios**

Another key initiative under HUD 2020 is the centralized Real Estate Assessment Center (REAC), whose primary purpose is to score the physical and financial health of HUD's public housing and multifamily portfolios, thus enabling other HUD entities to better target their monitoring and enforcement efforts. The Department budgeted about \$63 million in Fiscal Years 1998 and 1999 and another \$100 million over Fiscal Years 2000 and 2001 to develop all assessment, including the physical and financial assessment systems.

While we consider this comprehensive approach to assessing the HUD portfolio a positive step, we have yet to see evidence that results are being or will be widely used:

- During Fiscal Year 1999, the REAC reported that 28,835 physical inspections of multifamily and public housing properties had been conducted. The Office of Housing has established a procedure to address physical inspection results. However, the procedure relies on owners' certifications to assure that repairs are complete, even in the case of health and safety violations. In contrast, the Office of Public and Indian Housing has generally been reluctant to use the inspection results in their monitoring of the Public Housing Authorities because the scores were only advisory in Fiscal Year 1999. While it is true that the scores to date have been advisory, the physical deficiencies are real conditions – including health and safety violations-- that need to be corrected.

HUD has announced that it will start official physical inspections in June 2000. There is, however, significant question about how this intention complies with the following instruction in the Conference Report on HUD's Fiscal Year 2000 appropriations:

“The conferees direct HUD to delay implementing the Public Housing Assessment System (PHAS) until, in consultation with public housing authorities (PHAs) and their designated representatives, the Secretary: (a) conducts a thorough analysis of all advisory PHAS assessments; (b) reviews the GAO's study of the PHAS when it is complete; and (c) based on that analysis and review, publishes in the Federal Register a new consensus-based PHAS final rule that incorporates any recommended changes resulting from the process referenced above.”

To the OIG's knowledge, the GAO study of the PHAS will not be complete by June 2000. At least one major housing interest group is, in addition, claiming that HUD did not comply with the other provisions of the Conference Report language before issuing the final PHAS rule.

- During Fiscal Year 1999, the REAC assessed the financial reports for approximately 2,800

Public Housing Authorities and received financial statements for approximately 7,800 insured multifamily projects. The assessment of Public Housing Authorities financial reports is on schedule; however, the assessment was only advisory for Fiscal Year 1999. Consequently, the results of the assessments were not generally utilized by Field Offices.

In contrast, delays were encountered in obtaining electronic submission of insured multifamily projects financial information. The REAC therefore extended the financial statement filing deadline to August 1999 from March 1999, and the Office of Housing delayed releasing the data to the Field Offices until staff could be trained on the use of the data. Distribution of financial results began on September 30, 1999. REAC has advised that all financial information and analyses are now available to the Office of Housing for project monitoring. The OIG has yet to determine how or whether the results are being used.

### **Taking Action to Improve Troubled Public Housing**

Another key initiative under HUD 2020 are two Troubled Agency Recovery Centers, whose mission is to work with public housing authorities designated as troubled by the REAC, in order to assist the housing authorities in bringing their performance to an acceptable level. HUD declared the Troubled Agency Recovery Centers fully operational on October 1, 1998.

In September 1999, about a year later, the OIG looked at the two Troubled Agency Recovery Centers and found they were working at 10% of their planned capacity. The reason is simple: HUD had expected that the REAC's scoring systems would identify 575 troubled public housing authorities that would constitute the Troubled Agency Recovery Centers' workload by October 1998. However, at this writing, almost 16 months later, the REAC still isn't issuing official scores, so the Troubled Agency Recovery Center workload is still defined by the former and very deficient self-assessment system known as the Public Housing Management Assessment Program (PHMAP). Under PHMAP, there are only 52 troubled public housing authorities.

Consider what this means. On the one hand, if HUD was correct that its Troubled Agency Recovery Center staff could handle 575 troubled authorities, but their actual workload is only 52, then 90 percent of that staff has been underutilized or not utilized for a long time.

More importantly, HUD doesn't need elaborate Real Estate Assessment scoring systems to know that there are some very troubled public housing authorities that aren't identified as such by PHMAP. Consider the case of the Puerto Rico Housing Administration (PHA).

- In December 1996, HUD took the PHA off its PHMAP-based list of overall troubled public housing authorities. The PHA has never gone back on that list.
- In June 1998, the OIG issued an audit report on the PHA, alerting HUD to a series of potentially serious problems.



- In September 1998, OIG officials told Public and Indian Housing (PIH) officials that there were virtually no controls over the PHA's procurement system, resulting in high potential for fraudulent activity. We urged PIH to intervene immediately to correct PHA business practices. To date, there has been no HUD intervention at the PHA, and the PHA continues doing business as usual.
- On October 29, 1998, based on an investigation by the FBI, OIG, and the Office of the Comptroller of Puerto Rico, three individuals were indicted on charges of conspiracy to defraud HUD and embezzlement of over \$1 million from the PHA. The three individuals have since pled guilty.
- On March 25, 1999, based on an FBI and OIG investigation, six individuals were indicted on charges of bribery, conspiracy, money laundering, and theft of over \$1.4 million in PHA funds. Two of the six individuals have since pled guilty.
- Currently, the FBI and the OIG are investigating five other major cases of potential procurement fraud at the PHA.

### **Taking Enforcement Action against Bad Landlords**

Another key initiative under HUD 2020 is the centralized Enforcement Center. At the heart of Secretary Cuomo's "Get Tough" policy, the mission of the Center was to pursue civil and regulatory actions against i) public housing authorities and private, multifamily owners whose properties receive failing scores from the REAC; and ii) Community Planning and Development and Fair Housing and Equal Opportunity grantees who do not pass audit scrutiny or who engage in waste, fraud, or abuse.

I expect that the delay in the REAC's issuing official scores for public housing and multifamily properties has negatively affected the Enforcement Center's operations. I am unable to provide you with a definitive assessment, however, because the OIG is just now completing its audit of the Enforcement Center.

I can provide you with two anecdotes that indicate there may be cause for concern.

- In January 2000, as a result of OIG, FBI, and IRS investigative work under the OIG's Housing Fraud Initiative, the U.S. Attorney for the Central District of California announced 41 indictments and guilty pleas for Single Family Mortgage Insurance fraud. Secretary Cuomo promptly issued a press release claiming that the indictments and guilty pleas resulted from his "Get Tough" policy and his establishment of the Enforcement Center. Neither had any relevance whatever to the investigations or the results of the investigations.
- In the spring of 1998, Enforcement Center personnel invited the OIG to assist them in pursuing a \$15 million civil fraud case against Associated Estates Realty Corporation, in Cleveland, Ohio. The case related to Associated Estates' ownership of three HUD-insured, Section 8 subsidized multifamily properties that were notorious, two of the properties having been cited by the City of Cleveland for more than 8,600 health and safety

violations.

The OIG agreed with the Enforcement Center's assessment, and an OIG agent accompanied the Enforcement Center personnel to a meeting with the U.S. Attorney's Office. The U.S. Attorney's Office tentatively agreed with the Enforcement Center's assessment, and requested additional information.

The next time the U.S. Attorney's Office or the OIG heard about Associated Estates was from a March 1999 article in the Cleveland Plain Dealer. The article said that HUD program officials (who had taken jurisdiction of the case away from the Enforcement Center) had settled with Associated Estates, agreeing to pay Associated Estates \$1.78 million for the retroactive rent increase on the condition that Associated Estates found new owners for two properties. The Plain Dealer quoted Secretary Cuomo as saying: "This settlement agreement sends a strong message to owners and managers of housing subsidized by HUD. If you don't provide safe and decent housing to families in need, your days of getting money from this department are over."

In December 1999, the Plain Dealer reported that HUD had paid the \$1.78 million to Associated Estates, even though Associated Estates hadn't found new owners for the two properties. Howard Glaser, Counselor to the Secretary, was quoted as saying, "Everybody agreed. Let's stop this now, take the properties, even if we have to hold [our] nose and make the payment. The guy who signed it [Gary Eisenman, HUD's General Deputy Assistant Secretary for Housing], would be the first to tell you he held his nose."

What the Plain Dealer did not report is that, in addition to providing for the \$1.78 million payment for a retroactive rent increase for one property, the settlement agreement also released Associated Estates from any civil or administrative claims relating to their ownership and operation of four HUD-insured and subsidized properties. Three of the four properties were the same properties that were involved in the \$15 million civil fraud case that the Enforcement Center had wanted to pursue.

### **Improving HUD's Financial Information System**

Another key initiative under HUD 2020 is the Financial Systems Integration Plan. The Plan was designed to correct Department-wide financial management deficiencies while simultaneously providing the information necessary to carry out the financial and programmatic missions of the Department.

In late 1997, the Department decided to use an off-the-shelf software in the development of its financial management system known as HUDCAPS. In a January 1998 memorandum to the Secretary, we pointed out several risks inherent in that decision. We noted the decision to use the standard software was made without a thorough analysis of other alternatives. Also, the selected software was not user friendly and was not the "state of the art technology" for the time. This year our concerns became reality. After much effort, schedule delays, frequent scope changes, and cost increases, HUDCAPS was prepared to operate as Department-wide ledger beginning with fiscal year 1999. However, as implemented, the HUDCAPS core financial system still does not fully comply with federal financial system

requirements and still does not correct long standing financial system weaknesses in its feeder systems such as the FHA general ledger.

The following financial management systems deficiencies, which were reported in prior years, were present during fiscal year 1999.

- Insufficient information about individual multifamily loans. The financial system cannot identify high risk and troubled loans for monitoring and oversight.
- Lack of integration between program and accounting systems. For example, monthly cash reconciliations are not being done and FHA summary transaction data are not entered into the department-wide system on a timely basis.
- Inability to support adequate funds control for FHA, which, among other things, resulted in an Anti-Deficiency Act violation in fiscal year 1999.
- Inability to fully support budgeting for Section 8 project-based programs. HUD was to do an initial recapture of unneeded excess funds remaining on expired contracts in August, 1999 but was not able to complete that recapture until December due to the systems problems. Moreover, that recapture excluded 391 expired contracts with \$408 million in reserve budget authority because of insufficient data to perform the analysis.

### **SHOULD THE ANNOUNCEMENT OF NEW PROGRAMS BE CONSIDERED A SUCCESS STORY?**

The OIG has long held that there is a mismatch between the number and complexity of HUD's programs and the capability of HUD staff to administer those programs. In 1994, at the request of Secretary Cisneros, we prepared a major report on "Opportunities for Terminating, Consolidating, and Restructuring HUD Programs." The report was a principal basis for Secretary Cisneros' Reinvention Blueprint, which called for a radical restructuring of HUD programs. You may remember that prospects for enactment of the Reinvention Blueprint ended when the cries for abolishment of HUD began.

When we did our 1994 report, we counted 240 separable HUD program activities. Our last count, in 1997, was 328 separable HUD program activities. We believe the count has continued to increase while HUD staff has continued to decrease.

Against this background, you can understand why the OIG does not consider it good news when Secretary Cuomo announces the "teacher next door" initiative, the "officer next door" initiative, the gun buyback initiative, the Pine Ridge initiative, the HUD storefront initiative, the gun safety initiative, the "healthy homes" initiative, or the initiative to organize public housing authorities to file suit against gun manufacturers. On its own, each of these initiatives may have some appeal, but their effect is to divert scarce HUD resources away from HUD's core programs.

The diversion of HUD resources away from HUD's core programs has been particularly apparent in the case of the Community Builder Program, a key initiative under HUD 2020. Our

September 30, 1999 audit of the Community Builder Program evaluated Community Builder hiring practices, reviewed their assigned duties and responsibilities, and examined their impact on other HUD organizational elements. Our audit found serious problems with Community Builder hiring practices, the Community Builder concept, and the Community Builder's impact on HUD operations:

- There was little evidence to support HUD's decision that it needed about 800 Community Builders. This issue is of importance because the Community Builder positions were established within the framework of HUD's downsizing staff. That is, HUD neither sought nor obtained increased funding for the Community Builders.
- HUD violated Office of Personnel Management rules in hiring "external" Community Builders ( who were not HUD staff at the time) as term appointments.
- While the Community Builder concept was part of an attempt to distinguish HUD outreach and monitoring functions, it proved to be an expensive and controversial solution. A common problem identified in many of our recent audits of HUD programs is the lack of staff resources to effectively manage and monitor. The nearly 800 Community Builder staff committed to outreach functions, are a major drain on potential monitoring resources.
- In reviewing the impact of Community Builder work, we found few measurable results. In our interviews with 59 Community Builder staff, 39 said they spent more than half their time on public relations activities.

Our audit recommended the Community Builder program be terminated.

### **SHOULD POSITIVE ASSESSMENTS BY CONSULTANTS PAID BY HUD BE CONSIDERED AUTHORITATIVE?**

Because HUD 2020 has had a staggering impact on the Department, the OIG has been monitoring its progress on a realtime basis. While OIG work must by law be conducted in accordance with professional standards that ensure its independence and objectivity, the consultants paid by HUD are not governed by such strictures. Once commencement of OIG HUD 2020 work is announced, it has become almost standard operating procedure for the Department to hire a consultant to provide a contemporaneous assessment. Here are a few examples:

Our assessment of the HUD 2020 Management Reform Plan, as described in Chapter One of our September 1997 and March 1998 Semiannual Reports to Congress, was contrasted with a \$412,000 assessment by Booz-Allen & Hamilton and their sub-contractors to include David Osborne and James Champey. Our analysis was an effort to review the progress of organizational changes against HUD 2020 plans and we were critical of major delays in reform implementation. On the other hand, the contractor's assessments were conceptual, focusing on the soundness of the reform concepts. Since Booz-Allen & Hamilton's report was issued in March 1998, it has been used on numerous occasions by HUD management to acclaim the success of HUD 2020 Reforms.

In Chapter One of the OIG's September 30, 1998 Report to the Congress (which was sent to the Congress on December 11, 1998), we tracked the progress of HUD 2020 against milestones that

HUD had announced at the outset of HUD 2020. We reported that most of the reform initiatives were well behind schedule. For example, the HUD 2020 Plan had called for the Troubled Agency Recovery Centers to be fully operational by October 1, 1998; but OIG auditors found that the Troubled Agency Recovery Centers were operating at only 10 percent of capacity. On October 30, 1998, the Department contracted with Price Waterhouse Coopers for a \$126,000 evaluation of HUD's progress in meeting seven HUD 2020 milestones. However, in the process, HUD refined the milestones substantially, enabling a positive assessment of progress by Price Waterhouse Coopers on December 1, 1998. In the case of the Troubled Agency Recovery Centers, for instance, the refined milestone was that two Troubled Agency Recovery Offices would be opened by October 1, 1998. In the OIG's view, there is a vast difference between opening offices and ensuring that those offices are fully operational.

Our recent comprehensive review of the Community Builder Program was contrasted with a simultaneous \$146,000 Analysis of Community Builder Effectiveness by Ernst & Young. Under their engagement parameters with HUD, Ernst & Young was provided a list of Community Builder case studies to sample and a list of interview sources. The scope of their engagement did not provide for interviews of HUD employees regarding the Community Builder Program. Our review included interviews with 231 parties involved in the program to include Community Builders, other HUD staff and outside customers. The findings in both reports were strikingly different.

### **ARE INCREASED APPROPRIATIONS FOR HUD A SUCCESS STORY?**

Since being confirmed as Secretary of HUD, Andrew Cuomo has said that HUD must get its own house in order before it could expect to be entrusted with new programs and/or increased budgets. As I said at the start of this testimony, Secretary Cuomo along with other Principal Staff, notably Deputy Secretary Ramirez, have declared much of the 2020 Management Reforms a success. They have taken advantage of opportunities the Congress has provided them to testify as well as announcing the results of studies they have contracted for as vehicles to communicate this.

Just 10 days ago the HUD Public Affairs Office issued a press release announcing the President's 2001 Budget. The press release contained the following statements by Secretary Cuomo:

"This budget shows that HUD is back in business, and has achieved a new level of public trust and confidence by proving it can create and run quality programs;"

"The budget will build on HUD's success and help unlock the door to prosperity for people and places left behind in these good economic times;"

"Just a few years ago, our critics were calling for the elimination of HUD;"and,

"Today, HUD is held up as a model of successful government reinvention."

The Secretary should be congratulated for both his acumen and persistence in conveying the budgetary needs of HUD's constituents and his success in attaining increased appropriations. For Fiscal Years 1999 and 2000 the Department's efforts were recognized with increased appropriations: the best HUD budgets in 10 years was the Secretary's message. The President's 2001 Budget continues this trend with a proposed increase of \$6 billion. As I said earlier, we in the OIG believe in HUD's mission.

HUD is the hope of last resort for many folks living in this Country, and few people convey that message as convincingly as Secretary Cuomo.

Conversely, staff in the OIG routinely see first hand the waste and abuse of scarce HUD funds. HUD could do a much better job with the resources it has if it dealt more with the substance, that is the infrastructure, rather than the ministerial aspects of reform. In other words, HUD needs to deal with the material weaknesses and not just the checkbook balance if it is to assure that increased funding truly assists the rightful beneficiaries.

### **YET AGAIN, SO WHAT?**

I support many of the goals that Secretary Cuomo has for HUD. I trust it is clear to you, however, that Secretary Cuomo and I have very different views about the current state of affairs at HUD. To some extent, that is not surprising: Secretary Cuomo, understandably, wants to tell a success story; but my job is to report the facts, including problems, and encourage problem-solving when appropriate. As I said at the outset of this testimony, an IG's view is a particular view, but I believe it is critically important that HUD identify and solve its problems in order to better serve the people who need HUD's help.

The media have tended to label Secretary Cuomo's and my differing views as a personal feud. That perception is highly unfortunate, but I think it arises because Secretary Cuomo and I seem to be the only people, other than GAO, engaging in any dialogue about waste, fraud, and abuse at HUD. And that doesn't make any sense to me.

First, I think it goes without saying that no cabinet department should be an island unto itself. Yet ongoing Congressional and Executive Branch oversight of management issues at HUD is minimal, at best. Your hearing today is, to me, a relatively exceptional expression of interest by the Congress. For its part, the Office of Management and Budget (OMB) tends to track a small number of narrow issues. OMB, for instance, exerts considerable pressure on agencies to obtain unqualified opinions on audits of financial statements, but I am aware of no equivalent OMB interest in the accompanying Report on Internal Controls. Yet we know that Congressional and Executive Branch oversight can be very effective: witness the Y2K success story.

Second, I don't think HUD can solve its problems all by itself. I am not opposed to downsizing the Federal bureaucracy, but we should be determined that the downsized bureaucracy has the capacity to administer its programs. And that, to me, means that we should be looking for every opportunity to consolidate, terminate, and streamline programs. We should be considering increased use of formula and block grants. We should be talking again about devolution of responsibilities to States and localities, a concept that hasn't made much progress at HUD. We should be looking for ways to build incentives into programs that work to prevent fraud, waste, and abuse, thus requiring less onerous and unappreciated monitoring by the Federal Government. We should be thinking about whether Government Corporations such as Ginnie Mae and FHA should be allowed to truly operate as government corporations and, in the process, solve their own management problems.

Obviously, such actions would require intensive, ongoing efforts on the part of the Congress and the Executive Branch. But, in my view, the benefits would far outweigh the costs.

Mr. Chairman, that concludes my testimony. I appreciate the opportunity you have afforded me to appear here today.